



Nkandla Municipality
(Registration number KZN 286)
Annual Financial Statements
for the year ended 30 June 2019

Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended 30 June 2019

General Information

Executive committee

Mayor

Cllr AT Ntuli - Mayor
Cllr NFJ Nzuza - Deputy Mayor
Cllr SO Sibiyi - Speaker
Cllr BB Dlomo - Exco Member
Cllr BZ Mncadi-Mpanza - Exco Member
Cllr NR Xulu - Exco Member

Councillors

Cllr TP Mncube
Cllr NP Mahaye
Cllr MBE Ntombela
Cllr ZM Mbeje
Cllr TF Nxumalo
Cllr PR Dlamini
Cllr JB Ntuli
Cllr FK Magubane
Cllr TB Mbuyisa
Cllr LM Msimango
Cllr BB Ndimi
Cllr PJ Buthelezi
Cllr NPN Magubane - MPAC Chairperson
Cllr TB Ntombela
Cllr AS Skhakhane
Cllr SV Lushozi
Cllr BS Mbambo
Cllr NP Zulu
Cllr DB Mpungose
Cllr NW Gasa
Cllr NS Khumalo

Grading of local authority

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Accounting Officer

Mr LS Jili

Chief Finance Officer (CFO)

Mr S Ntombela

Registered office

Private Bag x 161
Nkandla
3855

Business address

Maree Road, Lot 292
Nkandla

Bankers

FNB

Auditors

Auditor General of South Africa

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GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
INEP	Intergrated National Electrification Programme
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on page 54, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed by:

Mr LS Jili
Accounting Officer

Nkandla Municipality

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Annual Financial Statements for the year ended 30 June 2019

Auditor's Report

Nkandla Municipality

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Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

	Note(s)	2019 R	2018 Restated* R
Assets			
Current Assets			
Receivables from non-exchange transactions	7	5,473,650	2,968,586
VAT receivable	9	1,846,453	1,391,158
Receivables from exchange transactions	6	8,701,509	7,183,088
Cash and cash equivalents	10	5,267,911	1,512,771
		21,289,523	13,055,603
Non-Current Assets			
Investment property	3	4,738,039	4,969,528
Property, plant and equipment	4	316,043,617	302,700,037
Intangible assets	5	451,247	657,254
		321,232,903	308,326,819
Total Assets		342,522,426	321,382,422
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	26,541,566	18,206,546
Unspent conditional grants and receipts	11	4,941,760	1,742,146
Provisions	12	17,570	51,207
		31,500,896	19,999,899
Non-Current Liabilities			
Provisions	12	7,620,389	7,272,115
Total Liabilities		39,121,285	27,272,014
Net Assets		303,401,141	294,110,408
Accumulated surplus		303,401,141	294,110,408

* See Note 35

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Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

	Note(s)	2019 R	2018 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	14	13,775,423	10,449,201
Rental of facilities and equipment	15	1,211,204	973,611
Interest on consumer debtors	16	1,324,803	1,303,432
Other income	17	916,800	953,806
Interest received - investment	18	1,428,471	834,708
Total revenue from exchange transactions		18,656,701	14,514,758
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	24,792,323	20,776,805
Transfer revenue			
Government grants & subsidies	20	124,853,386	112,350,301
Other Income	21	178,276	121,499
Total revenue from non-exchange transactions		149,823,985	133,248,605
Total revenue		168,480,686	147,763,363
Expenditure			
Employee related costs	22	(47,794,501)	(44,207,872)
Remuneration of councillors	23	(9,421,810)	(8,973,444)
Depreciation and amortisation	24	(17,465,991)	(14,352,141)
Lease rentals on operating lease	30	(4,195,033)	(3,921,995)
Debt Impairment	25	(1,560,116)	(3,058,084)
Bulk purchases - Electricity	26	(11,087,107)	(11,075,818)
Contracted services	27	(11,464,387)	(8,440,383)
General Expenses	28	(56,492,602)	(45,098,899)
Total expenditure		(159,481,547)	(139,128,636)
Operating surplus		8,999,139	8,634,727
Surplus or (Loss) on disposal of assets		354,650	67,998
Assets written-off		(63,056)	(297,864)
		291,594	(229,866)
Surplus for the year		9,290,733	8,404,861

* See Note 35

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Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2017	337,864,554	337,864,554
Changes in net assets		
Prior period errors	(52,159,007)	(52,159,007)
Net income (losses) recognised directly in net assets	(52,159,007)	(52,159,007)
Surplus for the year	8,404,861	8,404,861
Total recognised income and expenses for the year	(43,754,146)	(43,754,146)
Total changes	(43,754,146)	(43,754,146)
Restated* Balance at 01 July 2018	294,110,408	294,110,408
Changes in net assets		
Surplus for the year	9,290,733	9,290,733
Total changes	9,290,733	9,290,733
Balance at 30 June 2019	303,401,141	303,401,141
Note 35		

* See Note 35

Nkandla Municipality

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Annual Financial Statements for the year ended 30 June 2019

Cash Flow Statement

	Note(s)	2019 R	2018 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		36,610,797	33,670,536
Grants		128,053,000	112,101,843
Interest income		1,428,471	834,708
		<u>166,092,268</u>	<u>146,607,087</u>
Payments			
Employees costs and councillors		(57,302,015)	(52,400,086)
Suppliers		(74,954,631)	(73,462,081)
		<u>(132,256,646)</u>	<u>(125,862,167)</u>
Net cash flows from operating activities	31	<u>33,835,622</u>	<u>20,744,920</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(30,435,133)	(20,039,084)
Proceeds from sale of property, plant and equipment	4	354,650	-
Net cash flows from investing activities		<u>(30,080,483)</u>	<u>(20,039,084)</u>
Net increase/(decrease) in cash and cash equivalents		<u>3,755,139</u>	<u>705,836</u>
Cash and cash equivalents at the beginning of the year		1,512,771	806,935
Cash and cash equivalents at the end of the year	10	<u>5,267,910</u>	<u>1,512,771</u>

* See Note 35

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	14,226,000	-	14,226,000	13,775,423	(450,577)	
Rental of facilities and equipment	906,000	-	906,000	1,211,204	305,204	1
Interest on consumer debtors	1,300,000	-	1,300,000	1,324,803	24,803	2
Other income	424,000	(33,000)	391,000	916,800	525,800	3
Interest received - investment	900,000	-	900,000	1,428,471	528,471	4
Total revenue from exchange transactions	17,756,000	(33,000)	17,723,000	18,656,701	933,701	

Revenue from non-exchange transactions

Taxation revenue

Property rates	21,002,000	2,912,000	23,914,000	24,792,323	878,323	5
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Transfer revenue

Government grants & subsidies	128,340,000	3,000,000	131,340,000	124,853,386	(6,486,614)	5, 6 & 7
Other transfer revenue 1	-	-	-	178,276	178,276	

Total revenue from non-exchange transactions	149,342,000	5,912,000	155,254,000	149,823,985	(5,430,015)	
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Total revenue	167,098,000	5,879,000	172,977,000	168,480,686	(4,496,314)	
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Expenditure

Employee costs	(43,052,000)	-	(43,052,000)	(47,794,501)	(4,742,501)	8
Remuneration of councillors	(10,199,000)	799,000	(9,400,000)	(9,421,810)	(21,810)	
Depreciation and amortisation	(13,000,000)	-	(13,000,000)	(17,465,991)	(4,465,991)	9
Lease rentals on operating lease	-	(4,110,000)	(4,110,000)	(4,195,033)	(85,033)	
Bad debts written off and Debt impairment	(3,500,000)	-	(3,500,000)	(1,560,116)	1,939,884	
Bulk purchases	(12,000,000)	-	(12,000,000)	(11,087,107)	912,893	10
Contracted Services	(23,056,000)	(7,667,000)	(30,723,000)	(11,464,387)	19,258,613	11
General Expenses	(34,578,000)	1,985,000	(32,593,000)	(56,492,602)	(23,899,602)	12

Total expenditure	(139,385,000)	(8,993,000)	(148,378,000)	(159,481,547)	(11,103,547)	
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Operating surplus	27,713,000	(3,114,000)	24,599,000	8,999,139	(15,599,861)	
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Gain on disposal of assets and liabilities	-	314,000	314,000	354,650	40,650	13
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Assets written-off	-	-	-	(63,056)	(63,056)	
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	-	314,000	314,000	291,594	(22,406)	
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Surplus before taxation	27,713,000	(2,800,000)	24,913,000	9,290,733	(15,622,267)	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	27,713,000	(2,800,000)	24,913,000	9,290,733	(15,622,267)	
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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

The Variances of less than 10% in revenue are considered to be immaterial while all variances in expenditure are considered material and reasons for variances are provided below on these basis.

- (1) Rental of facilities and equipment- Municipality evacuated all non paying tenants and those premises were let to new paying tenants. This resulted in increase in rental of facilities income.
- (2) Interest on consumer debtors -Variance is insignificant and therefore considered to be inline with budget.
- (3) Other income- Municipality started operation DLTC where Learners licences are issued, renew drivers licences and issuing of traffic fines. This resulted in increased revenue than budgeted. There were no indication during budgeting that DLTC could be in operation.
- (4) Interest on investment - Municipality received an INEG grant and an additional R3 Million for MIG in the current financial year from which interest was derived from temporary investments. These grants were not received previous financial year from which our budget was based..
- (5) Community library Service- R4 641 000 was gazetted but only R1 560 000 was actually received from Arts and Culture
- (6) Nkungumathe Lodge grant was gazetted but never received
- (7) Ring-fenced Municipal Infrastructure Grant- There is an unspent portion on ring fenced MIG which has not been recognised as income. The budget was based on amount being fully spent
- (8) Employee related costs - Municipality reviewed organogram and there were new posts created and filled, and also the budget was aligned to the previous year's actual and did not take into account proposed salary increments.
- (9) Depreciation and amortisation - Municipality accelerated the completion of certain capital projects and commenced with depreciation on those asset.
- (10) Bulk purchases - Municipality procured new metres that reports immediately if there is electricity theft, this has resulted in decreased electricity purchases compared to last financial year..
- (11) Contracted services - Contracted services budget includes misallocations from other expenditure accounts e.g lease rentals and general expenditure.
- (12) General expenditure - Implementation of Mscoa resulted in most of general expenditure being classified to contracted services while its general in nature. The overall actual total of contracted and general is inline with budgeted amount, there is an insignificant variance.
- (13) Gain on disposal of assets and liabilities- Assets were disposed through auction, therefore bidders were competing and proceeds were far above municipality's expectations.

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Provision for landfill site

The entity has an obligation to rehabilitate its landfill site in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square metre, the monitoring cost per square metre, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value to represent the time value of money.

Other provisions

The municipality's other provisions consist of a provision for long service award. Provisions are measured as the present value of the estimated future outflows required to settle the obligation.

Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payments history and risk profile. The municipality firstly assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not significant.

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

Nkandla Municipality

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one accounting period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life in years
Infrastructure	
• Roads and paving	30
• Pedestrian malls	30
• Electricity	20-80
Community	
• Buildings	30
• Recreational facilities	20-30
• Security	5

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.5 Property, plant and equipment (continued)

Other

• Buildings	30
• Vehicles	5
• Office Equipment	3-7
• Furniture and fittings	7-10
• Bins and containers	5
• Other items of plant and equipment	2-5
• Landfill sites	15

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.6 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity and the cost or fair value of the asset can be measured reliably.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.6 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Intangible assets consist of computer software.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, internally generated	5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at amortised cost.
- Financial liabilities measured at amortised cost.
- Financial instruments at fair value.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their components parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value plus in case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to acquisition or issue.

Transaction costs on financial instruments at fair value are recognised in surplus or deficit.

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1.7 Financial instruments (continued)

Subsequent measurement

Financial instruments at fair value are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Financial assets and liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as financial assets at amortised cost.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at amortised cost.

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1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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Accounting Policies

1.9 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

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Accounting Policies

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. The cost of short-term employee benefits are recognised as expense in the period in which the service is rendered and are not discounted.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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Accounting Policies

1.10 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Contributions to Natal Joint Pension Fund are as follows:-

Provident: 98 Members 7% Council 13.65%

Retirement: 9 Members 7% Council 53.27%

Superannuation: 8 Members 9.25% Council 21.63%

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

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Accounting Policies

1.12 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Commitments are measured at the value of the contract less amount incurred.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service

Charges

Service charges revenue relating to refuse removal is recognised on a monthly basis in arrears by applying the approved tariff.

Service charges relating to electricity are based on consumption. Meters are read on regular basis and revenue is recognised when billed. Provisional estimates of consumption are made when meter readings can not be done. Prepaid electricity is recognised based on the approved tariffs.

Service charges revenue relating to other services is recognised on a monthly basis in arrears by applying the approved tariff.

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Accounting Policies

1.13 Revenue from exchange transactions (continued)

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

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Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expenditure has been incurred and to the extent that any other restrictions have been complied with.

1.15 VAT

The municipality accounts for Value Added Tax on the payments basis.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

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Accounting Policies

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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1.22 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2018 to 30/06/2019.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.23 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.24 Events after reporting date

Events after the reporting date that have been classified as adjusting events are accounted for in the annual financial statements. Events after the reporting date that are classified as non-adjusting events are disclosed in the notes to the annual financial statements.

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Accounting Policies

1.25 Grant expenditure

Grant expenditure refers to expenditure incurred by the municipality to deliver services funded by grants received from National and Provincial Government. Grant expenditure includes only operational grants which are conditional. Grant expenditure is only recognised as expenditure when the full conditions of the grant have been complied with. To the extent that the grant is not fully utilised at year end, an unspent conditional grant liability is disclosed.

1.26 Bulk purchase

Bulk purchase expenditure refers to bulk electricity purchased from Eskom and consumed during the year. Expenditure on bulk purchase is recognised as electricity is consumed and electricity not consumed at year end if any is recognised as inventory. At each reporting date, the municipality determines electricity distribution losses and are included in bulk purchases and disclosed separately.

1.27 Contracted services

Contracted services refer to expenditure contracted to external service providers over an agreed period of time. A contracted service is recognised as expenditure when the external service provider renders services to the municipality as agreed "in terms of accrual basis of accounting".

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Notes to the Annual Financial Statements

2019	2018
R	R

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20 Related Parties	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2019	Unlikely there will be a material impact
• GRAP 32 Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 108 Statutory Receivables	08 April 2019	Unlikely there will be a material impact

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2020	Unlikely there will be a material impact
• GRAP 32 Service Concession Arrangements: Grantor	01 April 2020	Unlikely there will be a material impact
• IGRAP 17 Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2020	Unlikely there will be a material impact

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Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	6,955,451	(2,217,412)	4,738,039	6,955,451	(1,985,923)	4,969,528

Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Investment property	4,969,528	(231,489)	4,738,039

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	5,201,018	(231,490)	4,969,528

Pledged as security

There was no investment property pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	1,053,740	733,962
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From Investment property that generated rental revenue

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Notes to the Annual Financial Statements

	2019 R	2018 R
3. Investment property (continued)		
Repairs and maintenance	757,340	-

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Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	85,059,940	-	85,059,940	85,059,940	-	85,059,940
Furniture and office equipment	3,109,555	(1,601,710)	1,507,845	2,757,217	(1,743,358)	1,013,859
Computer equipment	2,766,556	(1,569,964)	1,196,592	2,708,725	(1,976,660)	732,065
Community Assets	79,463,825	(14,476,523)	64,987,302	65,376,917	(11,559,811)	53,817,106
Work in progress	22,451,318	-	22,451,318	11,604,719	-	11,604,719
Electrical infrastructure	17,268,725	(5,801,849)	11,466,876	17,152,724	(5,269,401)	11,883,323
Machinery and equipment	5,455,181	(1,942,902)	3,512,279	6,225,270	(1,801,487)	4,423,783
Transport assets	1,626,924	(604,731)	1,022,193	1,852,547	(1,338,147)	514,400
Landfill site	2,892,562	(1,894,817)	997,745	2,892,562	(1,821,992)	1,070,570
Road infrastructure	146,626,142	(41,955,609)	104,670,533	143,704,348	(31,118,810)	112,585,538
Other Assets	25,485,729	(6,314,735)	19,170,994	25,364,729	(5,369,995)	19,994,734
Total	392,206,457	(76,162,840)	316,043,617	364,699,698	(61,999,661)	302,700,037

Nkandla Municipality

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Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfers	Assets Written Off	Depreciation	Total
Land	85,059,940	-	-	-	-	85,059,940
Furniture and Office Equipment	1,013,859	829,861	-	(60,465)	(275,410)	1,507,845
Computer equipment	732,065	834,009	-	-	(369,482)	1,196,592
Community Assets	53,817,106	35,776	14,051,132	-	(2,916,712)	64,987,302
Work in progress	11,604,719	27,819,527	(16,972,928)	-	-	22,451,318
Electrical Infrastructure	11,883,323	116,000	-	-	(532,447)	11,466,876
Machinery and Equipment	4,423,783	50,050	-	(611)	(960,943)	3,512,279
Transport Assets	514,400	629,089	-	-	(121,296)	1,022,193
Landfill site	1,070,570	-	-	-	(72,825)	997,745
Road Infrastructure	112,585,538	-	2,921,796	-	(10,836,801)	104,670,533
Other Assets	19,994,734	120,821	-	-	(944,561)	19,170,994
	302,700,037	30,435,133	-	(61,076)	(17,030,477)	316,043,617

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Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Newly identified assets	Disposals	Transfers	Reclassification	Derecognition	Assets Written Off	Depreciation	Total
Land	100,645,940	-	-	(1,257,000)	-	-	(14,329,000)	-	-	85,059,940
Furniture and Office Equipment	1,159,589	64,191	71,497	-	-	-	-	(5,193)	(276,225)	1,013,859
Computer equipment	947,461	54,721	9,633	-	-	-	-	-	(279,750)	732,065
Community	59,045,940	-	-	-	5,777,914	(8,893,018)	(123,306)	-	(1,990,424)	53,817,106
Work in progress	49,274,666	17,079,303	-	-	(13,640,411)	-	(41,108,839)	-	-	11,604,719
Electrical infrastructure	9,166,440	-	-	-	331,709	3,470,569	-	-	(1,085,395)	11,883,323
Machinery and equipment	2,246,079	2,715,869	783	-	-	-	-	(8,053)	(530,895)	4,423,783
Transport assets	1,057,989	-	-	-	-	-	-	(284,620)	(258,969)	514,400
Landfill site	1,284,684	-	-	-	-	-	-	-	(214,114)	1,070,570
Road infrastructure	117,852,263	-	-	-	6,506,259	(3,470,569)	-	-	(8,302,415)	112,585,538
Other assets	10,899,489	125,000	-	-	1,024,529	8,893,018	(120,056)	-	(827,246)	19,994,734
	353,580,540	20,039,084	81,913	(1,257,000)	-	-	(55,681,201)	(297,866)	(13,765,433)	302,700,037

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Notes to the Annual Financial Statements

	2019 R	2018 R
4. Property, plant and equipment (continued)		
Pledged as security		
There was no property, plant and equipment pledged as security:		
Repairs and maintenance		
Contracted Services	5,404,824	4,765,282
Materials	729,194	1,655,555
Electrical Infrastructure	4,369,872	4,444,248
Employee Costs	1,910,156	1,053,125
	12,414,046	11,918,210

Reconciliation of Work-in-Progress 2019

Nkethabaweli - Manziwayo gravel road	6,761,754	5,522,782
Nhloshane Community Service Centre	-	2,295,430
Vimbimbobo Gavel Road	-	1,588,797
Nhlababo Community Hall	-	1,350,018
Mabhuqwini Community Services Centre	1,853,093	123,590
Nkungumathe Sports Field	3,585,357	361,308
Chwezi Community Services Centre	2,339,783	174,945
Mtshwili Community Services Centre	-	63,516
Nhloshane/Mfongosi Community Services Centre	2,048,696	124,333
Khabela Community Services Centre	2,523,051	-
Ezibondweni Gravel Road	2,515,785	-
Kwagugu Access Gravel Road	823,799	-
	22,451,318	11,604,719

Property, plant and equipment that is being constructed/ developed:

Included in property, plant and equipment are property that have been identified as taking significantly longer period of time to complete than expected, due to the following:

Nkethabaweli-Manzawayo

The cumulative expenditure has amounted to R 6 761 754. The contract between the Municipality and the contractor was terminated. A new contractor has been appointed to complete the project.

Thaleni-Vimbimbobo Electrification

The cumulative expenditure has amounted to R 1 726 359. The contract between the Municipality and the contractor was terminated. A new contractor has been appointed to complete the project.

Ntshiza Electrification

The cumulative expenditure has amounted to R 7 082 096. The contract between the Municipality and the contractor was terminated. A new contractor has been appointed to complete the project. There was also a delay due to Eskom strikes.

Nhlosane Electrification

The cumulative expenditure has amounted to R 13 098 376. The contract between the Municipality and the contractor was terminated. A new contractor has been appointed to complete the project.

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Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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4. Property, plant and equipment (continued)

Property, plant and equipment fully depreciated

The Municipality has 529 items of Property, plant and equipment included in the Fixed Asset Register which have a net book value of zero. 486 of assets are still in use and 43 retired from active use by the Municipality.

The Municipality has determined that an appropriate estimate of the assets' useful lives, residual values and depreciation methods was made based on the information available in the previous reporting period. The Municipality will therefore continue to measure these assets at a net book value of zero.

The class of assets which are affected as well as the total cost is detailed below:

Property, plant and equipment fully depreciated and still in use (Cost)

Computer Equipment	480,469
Furniture and Office Equipment	374,567
Machinery Equipment	90,641

Property, plant and equipment retired from active use (Cost)

Furniture and Office Equipment	185,769
Machinery Equipment	380,955

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Nkandla Municipality

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Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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5. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2,274,387	(1,823,140)	451,247	2,564,953	(1,907,699)	657,254

Reconciliation of intangible assets - 2019

	Opening balance	Asset written off	Amortisation	Total
Computer software	657,254	(1,980)	(204,027)	451,247

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	1,055,050	(397,796)	657,254

Pledged as security

There were no intangible assets pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Intangible asset fully depreciated

The Municipality has 6 Intangible assetst included in the Fixed Asset Register which have a net book value of zero. 5 of assets are still in use and 1 retired from active use by the Municipality.

The Municipality has determined that an appropriate estimate of the assets' useful lives, residual values and depreciation methods was made based on the information available in the previous reporting period. The Municipality will therefore continue to measure these assets at a net book value of zero.

The class of assets which are affected as well as the total cost is detailed below:

Intangible asset fully depreciated and still in use (Cost)

Computer Software	435,987
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Intangible asset retired from active use (Cost)

Computer Software	83,917
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Nkandla Municipality

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Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
6. Receivables from exchange transactions		
Gross Balances		
Electricity	5,008,940	4,629,022
Sundry	3,121,009	2,816,865
Refuse	5,763,519	5,560,149
Other	1,441,878	1,441,878
	15,335,346	14,447,914
Less: Allowances for credit impairment		
Electricity	(312,080)	(1,129,267)
Sundry	(354,566)	(445,870)
Refuse	(4,916,766)	(4,961,343)
Other	(1,050,425)	(728,346)
	(6,633,837)	(7,264,826)
Net Balance		
Electricity	4,696,860	3,499,755
Sundry	2,766,443	2,370,995
Refuse	846,753	598,806
Other	391,453	713,532
	8,701,509	7,183,088
Reconciliation of allowance for credit impairment		
Balance at beginning of the year	(7,264,826)	(7,788,275)
Reversal of credit impairment	630,989	523,449
	(6,633,837)	(7,264,826)
7. Receivables from non-exchange transactions		
Rates - Gross Balance	17,171,256	13,081,398
Add back: Credit balance in debtors	112,605	158,636
Traffic fines	89,350	-
	17,373,211	13,240,034
Less: allowance for credit impairment		
Consumer debtors - Rates	(11,899,561)	(10,271,448)
Net Balances		
Rates	5,384,300	2,968,586
Add back: Credit balance in debtors	89,350	-
	5,473,650	2,968,586
Reconciliation of allowances for credit impairment		
Balance at Beginning of the year	(10,271,449)	(7,082,087)
Contribution to allowance	(1,628,113)	(3,189,362)
	(11,899,562)	(10,271,449)

Nkandla Municipality

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Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
8. Consumer Debtors by Classification		
Consumers		
Current (0-30 days)	335,586	290,362
31-60 Days	145,333	130,190
61-90 Days	141,530	126,145
91-180+days	9,001,609	7,712,324
	9,624,058	8,259,021
Business		
Current (0-30 days)	1,347,958	1,040,841
31-60 days	266,108	192,839
61-90 days	106,886	111,391
91-180+days	3,382,780	3,255,168
	5,103,732	4,600,239
State Owned		
Current (0-30 days)	837,139	2,568,511
31-60 days	250,031	103,460
61-90 days	146,425	(159,173)
91-180+days	8,878,630	6,217,575
	10,112,225	8,730,373
Other		
Current (0-30 days)	343,462	116,808
31-60 days	127,770	72,166
61-90 days	115,593	59,196
91-180+days	7,079,763	5,691,508
	7,666,588	5,939,678
Total		
Current (0-30 days)	2,864,145	4,016,523
31-60 days	789,242	498,655
61-90 days	510,434	137,559
91-180+days	28,342,782	22,876,575
Add back: Credit balances in debtors	112,605	158,636
Less: Impairments	(18,533,399)	(17,536,275)
Traffic fines	89,350	-
	14,175,159	10,151,673
Consumer debtors past due but not impaired		
Other Consumer debtors debtors which are 3 months past due are not considered to be impaired. At 30 June 2019 - (2018: R 1,580, 444)		
1 month past due	911,517	729,472
2 month past due	815,416	577,502
3 month past due	546,106	273,470
	2,273,039	1,580,444

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Notes to the Annual Financial Statements

	2019 R	2018 R
9. VAT receivable		
VAT	1,846,453	1,391,158

Nkandla Municipality accounts for VAT on cash basis.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5,461	2,083
Bank and cash	5,262,450	1,510,688
	5,267,911	1,512,771

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
FNB Primary Bank Account 62720610717	76,814	817,711	-	136,814	817,711	-
ABSA - Account 4053858355	108,443	184,957	652,992	108,443	184,957	652,992
FNB - Cheque Account 62720611286	-	324,570	-	-	324,570	-
ABSA - Call Account 9104679851	-	-	1,627	-	-	1,627
ABSA MIG Call Account 9108997407	1,997	529	11,432	1,997	2,294	11,432
ABSA MIG Conditional Call Account - 9287118398	-	-	1,228	-	-	1,128
ABSA Conditional Account 9132397071	-	-	46,587	-	-	46,587
ABSA DOE Call Account 9287118576	82,911	78,394	74,014	82,911	78,394	74,014
ABSA EPWP Call Account 9287118801	6,359	96,185	1,073	6,359	96,185	1,073
ABSA MSIG Call Account 9287117928	4,768,999	1,081	8,154	4,768,999	1,080	8,154
ABSA FMG Call Account 9287118110	101,741	5,497	3,229	101,741	5,497	3,229
ABSA Investment account 9287138394	-	-	1,228	-	-	1,228
Nedbank LTD Call Account 1766000029	55,184	-	-	55,184	-	-
Petty Cash	-	-	-	5,463	2,083	5,371
Total	5,202,448	1,508,924	801,564	5,267,911	1,512,771	806,835

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Notes to the Annual Financial Statements

	2019 R	2018 R
11. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Cyber Cadet Grant	-	222,530
Municipal Infrastructure Grant	3,494,084	-
Qedisimo Grant	1,447,676	1,447,676
Library Grant	-	71,940
	4,941,760	1,742,146

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 20 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

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Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

					2019 R	2018 R
12. Provisions						
Reconciliation of provisions - 2019						
	Opening Balance	Additions	Actuarial Gain/(loss) recognised	Interest Cost/Finance Charges	Service Cost	Total
Environmental rehabilitation	5,506,322	330,637	-	-	-	5,836,959
Long service award - short term	51,207	(33,637)	-	-	-	17,570
Long service award - long term	1,765,793	(22,363)	(430,000)	171,000	299,000	1,783,430
	7,323,322	274,637	(430,000)	171,000	299,000	7,637,959
Reconciliation of provisions - 2018						
	Opening Balance	Additions	Actuarial Gain/(loss) recognised	Interest Cost/Finance Charges	Service Cost	Total
Environmental rehabilitation	5,264,170	-	-	242,152	-	5,506,322
Long service award - short term	63,897	(12,690)	-	-	-	51,207
Long service award - long term	1,389,103	(43,310)	42,000	135,000	243,000	1,765,793
	6,717,170	(56,000)	42,000	377,152	243,000	7,323,322
Non-current liabilities					7,620,389	7,272,115
Current liabilities					17,570	51,207
					7,637,959	7,323,322

Environmental rehabilitation provision

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 6.55% over an average period of 5 years.

Long service award provision

In line with the guidelines of the Bargaining Council, the municipality remunerates its employees for the long service rendered to the municipality. The estimates of the present obligation are determined through the use of Actuarial expertise. Such estimates are reviewed annually at the end of each financial year. The finance cost and actuarial gains/losses are recognised directly in the statement of financial performance.

The municipality offers bonuses for every 5 years of completed service from 10 to 45 years. Long service accumulated leave must be taken within one year of receiving such leave or wholly or partially cashed. In most cases employees exercise the option to wholly convert their accumulative leave bonus days into cash.

Key assumptions (%)

Discount rate	9.26%
CPI	5.38%
Salary increase rate	6.38%
Net Discount Rate	2.71%
Mortality	SA85-90
Normal Retirement age	63

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Notes to the Annual Financial Statements

	2019 R	2018 R
13. Payables from exchange transactions		
Trade payables	16,468,868	10,128,077
Payments received in advanced	302,878	348,909
Other payables	482,754	124,493
Accrued leave pay	3,865,471	3,644,280
Accrued bonus	1,166,829	1,054,876
Retentions	4,254,766	2,905,911
	26,541,566	18,206,546
14. Service charges		
Sale of electricity	12,965,339	9,685,875
Refuse removal	810,084	763,326
	13,775,423	10,449,201
15. Rental of facilities and equipment		
Premises		
Premises	1,053,740	733,962
Facilities and equipment		
Rental of facilities	157,464	239,649
	1,211,204	973,611
16. Interest on consumer debtors		
Interest from exchange and non-exchange transactions	1,324,803	1,303,432
17. Other income		
Burial fees	8,422	8,251
Connection fees	194,462	465,691
Housing plan	12,449	-
Library fees	40,904	28,180
Temparing fees	17,900	3,984
Taxi and bus licences	7,981	3,648
Tender monies	193,140	238,141
Plan submission	-	20,307
Recoveries from employees	-	7,225
Rates clearance certificates	1,082	825
Electricity meter upgrade	10,483	12,077
Sale of land	-	78,730
Advertising billboards	3,765	4,835
Newly identified asset	-	81,912
Learners Licences	92,195	-
PrDP and Learners Licences renewals	112,999	-
Other income 26	221,018	-
	916,800	953,806

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	2019 R	2018 R
18. Investment revenue		
Interest revenue		
Interest from current account	1,153,260	654,908
Interest on investment	275,211	179,800
	1,428,471	834,708
19. Property rates		
Rates		
Property rates	30,405,900	23,211,744
Less: Income forgone	(5,613,577)	(2,434,939)
	24,792,323	20,776,805
Valuations		
Agriculture	56,000	56,000
Business	118,355,000	111,655,000
Place of worship	3,120,000	1,870,000
Residential	77,483,000	78,953,000
State trust land	117,990,000	115,590,000
State owned properties	653,626,000	515,421,000
Vacant land	11,957,000	11,839,500
Protected area	11,000,000	11,000,000
Specialised non-market properties	21,200,000	22,130,000
Public service infrastructure	105,000	95,000
Public benefit organisations	15,385,000	11,235,000
	1,030,277,000	879,844,500

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The new general valuation was supposed to be effected on 01 July 2017 but the municipality was granted an extension by the MEC and the next general valuation will be effected on 01 July 2019.

A fixed rate is applied:

Agriculture: 0.0031 in the Rand

Business: 0.0365 in the Rand

Place of worship: 0.0000 in the Rand

Residential: 0.0118 in the Rand

State trust land: 0.0031 in the Rand

State owned properties: 0.0369 in the Rand

Vacant Land: 0.0188 in the Rand

Public Benefit Organisation: 0.0031 in the Rand

Multiple Use Property: 0.0365 in the Rand

Protected area: Nil

Specialised non-market properties: Nil

Public service infrastructure: Nil

The following rebate rates are applied:

100% of market value residential properties less than R80 000

100% of market value of worshipping properties

Nkandla Municipality

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Notes to the Annual Financial Statements

	2019 R	2018 R
20. Government grants and subsidies		
Operating grants		
Equitable share	86,797,000	82,435,000
Expanded Public Works Programme Grant	2,712,000	3,210,000
Financial Management Grant	1,970,000	1,900,000
Cybercadet Grant	419,530	395,318
Library Grant	909,940	1,154,144
Chwezi contribution	556,000	-
LGSETA	38,000	85,839
	93,402,470	89,180,301
Capital grants		
Municipal Infrastructure Grant	31,450,916	23,170,000
	124,853,386	112,350,301
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
In terms of the Division of Revenue Act an amount of R86 797 000 was gazetted to be received. An amount of R86 797 000 was received.		
Cyber Cadet Grant		
Balance unspent at beginning of year	222,530	34,847
Current-year receipts	197,000	583,000
Conditions met - transferred to revenue	(419,530)	(395,317)
	-	222,530
Conditions still to be met - remain liabilities (see note 11).		
Finance Management Grant		
Current-year receipts	1,970,000	1,900,000
Conditions met - transferred to revenue	(1,970,000)	(1,900,000)
	-	-
Conditions still to be met - remain liabilities (see note 11).		
Municipal Infrastructure Grant		
Current-year receipts	34,945,000	23,170,000
Conditions met - transferred to revenue	(31,450,916)	(23,170,000)
	3,494,084	-
Conditions still to be met - remain liabilities (see note 11).		
EPWP Grant		
Current-year receipts	2,712,000	3,210,000
Conditions met - transferred to revenue	(2,712,000)	(3,210,000)
	-	-

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Notes to the Annual Financial Statements

	2019 R	2018 R
20. Government grants and subsidies (continued)		
Qedisimo Projects		
Balance unspent at beginning of year	1,447,676	1,447,676
Conditions still to be met - remain liabilities (see note 11).		
Library Grant		
Balance unspent at beginning of year	71,940	508,083
Current-year receipts	838,000	718,000
Conditions met - transferred to revenue	(909,940)	(1,154,143)
	-	71,940
Conditions still to be met - remain liabilities (see note 11).		
21. Other income		
Penalties and fines	163,776	13,086
Donation received	14,500	108,413
	178,276	121,499

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Notes to the Annual Financial Statements

	2019 R	2018 R
22. Employee related costs		
Basic	30,755,637	27,650,091
Bonus	2,224,502	2,172,127
Medical aid - company contributions	1,855,067	1,623,772
UIF	280,788	229,965
SDL	467,472	440,736
Leave pay provision charge	826,736	1,053,739
Standby allowance	344,420	270,450
Pension contributions	3,846,363	3,448,479
Travel, motor car, accommodation, subsistence and other allowances	6,059,377	5,529,524
Overtime payments	533,283	530,632
Long-service awards	35,971	391,504
Acting allowances	113,146	427,522
Housing benefits and allowances	60,708	80,821
Industrial council	12,646	23,219
Cellphone allowance	43,554	27,600
Group life insurance	334,831	307,691
	47,794,501	44,207,872
Remuneration of Municipal Manager		
Annual Remuneration	678,104	642,710
Car Allowance	290,616	260,220
Other	21,131	34,137
	989,850	937,068
Remuneration of Chief Financial Officer		
Annual Remuneration	564,305	619,262
Car Allowance	241,845	250,717
Other	55,314	34,386
	864,463	924,365
Remuneration of Director of Community Services		
Annual Remuneration	45,585	-
Car Allowance	19,537	-
	65,122	-
Remuneration of Director of Technical Services		
Annual Remuneration	562,387	600,071
Car Allowance	189,845	232,385
Performance Bonuses	-	78,332
Housing allowance	-	24,788
Other	19,545	16,552
	771,777	952,118

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	2019 R	2018 R
22. Employee related costs (continued)		
Remuneration of Director of Corporate Services		
Annual Remuneration	564,305	601,739
Car Allowance	236,295	207,938
Performance Bonuses	-	33,300
Other	25,091	32,599
	825,690	875,576
23. Remuneration of councillors		
Mayor	872,149	840,208
Deputy Mayor	413,821	399,507
MPAC Chairperson	380,571	367,538
Speaker	413,821	399,507
Councillors	6,170,717	5,837,421
Executive Committee	1,170,731	1,129,262
	9,421,810	8,973,443
In-kind benefits		
The Mayor is full-time. The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are each provided with an office and secretarial support at the cost of the Council.		
The Mayor is entitled to stay at the mayoral residence owned by Council at no cost.		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.		
The Mayor has three bodyguards. The Deputy Mayor and speaker have two bodyguards.		
24. Depreciation and amortisation		
Property, plant and equipment	17,030,474	13,722,855
Investment property	231,489	231,489
Intangible assets	204,028	397,797
	17,465,991	14,352,141
25. Debt impairment		
Debt impairment	1,059,409	2,997,438
Bad debts written off	500,707	60,646
	1,560,116	3,058,084
26. Bulk purchases		
Electricity - Eskom	11,087,107	11,075,818

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	2019 R	2018 R
27. Contracted services		
Presented previously		
Information Technology Services	2,212,505	1,202,661
Specialist Services	1,203,655	1,278,959
Other Contractors	8,022,470	5,958,763
Outsourced Services		
Administrative and Support Staff	25,757	-
	11,464,387	8,440,383
28. General expenses		
Advertising	5,451,078	4,705,921
Auditors remuneration (refer to note 28)	1,510,114	1,953,171
Bank charges	158,506	88,800
Bursaries	764,562	787,058
Cleaning	406,363	89,908
Community development	11,224,047	5,752,168
Commission	4,894	7,350
Community safety	-	24,520
Consulting and professional fees	9,605,128	8,311,661
Contracted services - repairs and maintenance	486,904	2,116,567
Fines and penalties	67,891	34,427
Free basic electricity	939,073	161,920
Fuel and oil	1,306,479	1,455,061
Indigent burial	284,841	421,099
Insurance	406,572	337,531
Local economic development	1,145,789	1,289,438
Material - repairs and maintenance	4,587,193	1,690,746
Interest expenditure	111,663	-
Plant hire - road maintenance	3,708,438	2,625,215
Packaging	330,637	242,152
Printing and stationery	613,338	422,820
Protective clothing	331,218	-
Provincialisation	271,103	218,379
Repairs and maintenance - Electricity Infrastructure	4,224,153	4,444,248
Sewerage and waste disposal	473,439	428,236
Social services	-	30,605
Software expenses	101,958	86,681
Spatial planning	-	124,376
Sport & recreation	1,625,047	1,495,705
Staff welfare	136,495	112,177
Strategic planning	99,543	199,998
Subscriptions and membership fees	538,083	505,857
Telephone and fax	803,199	1,042,800
Traffic unit	16,271	109,669
Training	459,278	463,174
Travelling and accommodation	636,905	922,611
Uniforms	466,291	304,430
Water	1,297,332	399,534
Library and information services	-	229,861
Youth development	436,668	498,225
Ward committee stipends	1,462,109	964,800
	56,492,602	45,098,899

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Notes to the Annual Financial Statements

	2019 R	2018 R
29. Auditors' remuneration		
Fees	1,510,114	1,953,171
30. Operating lease		
Lease rentals on operating lease	4,195,033	3,921,995
Operating leases are in respect of leasing of printing machines from Capital Office. Refer to note 33 on additional lease commitment information.		
31. Cash generated from operations		
Surplus	9,290,733	8,404,861
Adjustments for:		
Depreciation and amortisation	17,465,991	14,352,141
Surplus or (loss) on disposal of assets	(354,650)	(67,998)
Debt impairment	1,560,116	3,058,084
Movements in provisions	314,637	606,152
Assets Written Off	63,056	297,866
Newly Identified assets	-	(81,912)
Release of Prepayment on land disposal	-	1,325,000
Changes in working capital:		
Consumer debtors	(3,078,537)	(5,031,256)
Other receivables from non-exchange transactions	(2,505,064)	1,019,324
Overpayments	-	299,139
Payables from exchange transactions	8,335,021	(4,823,183)
VAT	(455,295)	1,635,162
Unspent conditional grants and receipts	3,199,614	(248,460)
	33,835,622	20,744,920

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Notes to the Annual Financial Statements

	2019 R	2018 R
32. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Electrification	-	30,879,749
• Infrastructure assets	11,681,973	6,052,788
	11,681,973	36,932,537
Not yet contracted for and authorised by accounting officer		
• Infrastructure assets	22,834,000	30,833,333
• Electrification	17,000,000	-
	39,834,000	30,833,333
Total capital commitments		
Already contracted for but not provided for	11,681,973	36,932,537
Not yet contracted for and authorised by accounting officer	39,834,000	30,833,333
	51,515,973	67,765,870
Total commitments		
Total commitments		
Authorised capital expenditure	51,515,973	67,765,870

This committed expenditure relates to assets and will be financed by available grant funding, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	1,584,349	1,813,989
- in second to fifth year inclusive	94,723	1,681,532
	1,679,072	3,495,521

Operating lease payments represent rentals payable by the municipality for vehicles and computer equipment. Leases are negotiated for an average term of three years and rentals of vehicles and computer equipment with contingent rentals payable.

33. Contingencies

The following cases against the municipality are still pending and management consider them as contingent liability:

Ulungeni Consulting Engineers v Nkandla Municipality. The municipality is the defendant in this Civil matter. The municipality is sued for R281 954,76. We have been offered the option to settle 70% of the claim. The matter is still pending.

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Sibgem Management Consulting Engineers (Pty) Ltd v Nkandla Municipality. Municipality is the defendant on the civil matter. The matter is expected to be settled with an estimated amount of R 4 628 943.42. The matter is pending to proceed to court in due course.

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Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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34. Related parties

Relationships

Management remuneration

Council remuneration

Refer to employee related costs note 22

Refer to remuneration of councilors note 23

35. Prior period errors

1. During the 2018/2019 financial period the municipality's management has engaged various stakeholders regarding properties owned by the National Government and Regional and Land Affairs which were previously recognised in the Municipality's assets register. Through this engagement it became apparent that the municipality should not have recognised these properties as there were supporting information to substantiate such accounting treatment. This incorrect accounting treatment resulted to prior period error and has been adjusted retrospectively.

2. Through detailed review of the municipal assets it was discovered that the electrification projects which belong to Eskom were previously recognised in the Municipality's assets register. This was confirmed through a detailed review of the agreement between Eskom and the municipality and that Eskom reserves the right to distribute electricity in those areas. Therefore it is apparent that the Electrical Infrastructure assets were overstated, Retentions and accumulated surplus was overstated in the prior years. This incorrect accounting treatment resulted to prior period error and has been adjusted retrospectively.

3. Through detailed review of the municipal assets it was discovered that 2 generators were duplicated on the fixed asset register. Such error resulted in an overstatement of property, plant and equipment and depreciation and has been adjusted retrospectively.

4. Through detailed review of the suppliers module and preparation of the suppliers reconciliation; the municipal. noted numerous errors on the individual suppliers account balance as reported on the 30 June 2018. Such errors resulted from duplicated suppliers invoices on the suppliers module and in some other instance 2018 invoices were not raised in that reporting period resulting to understatement of trade payables. The noted discrepancies resulted to prior period error and has been adjusted retrospectively.

Statement of financial position

Decrease in Property, plant and equipment	(55,808,776)
Decrease in Payables from Exchange Transaction	3,593,482
Decrease in Opening Accumulated Surplus	52,288,570
Decrease in VAT receivable	(73,276)

	Previously reported	Adjustment	Restated Balance
Decrease in VAT receivable	1,464,433	(73,276)	1,391,157
Decrease in Property Plant and Equipment	358,508,817	(55,808,776)	302,700,041
Decrease in Payables from exchange transactions	(21,800,028)	3,593,482	(18,206,546)
Decrease in Accumulated Surplus	(346,398,980)	52,288,570	(294,110,410)
	(8,225,758)	-	(8,225,758)

Statement of Financial Performance

Increase in Depreciation and amortisation	-	85,004
Increase in General Expenses	-	44,559
Decrease in Surplus for the year	-	(129,563)

	Previously reported	Adjustment	Restated Balance
Increase in Depreciation and amortisation	14,267,137	85,004	14,352,141
Increase in General Expenses	45,835,570	44,559	45,880,129
Decrease in Surplus for the year	8,534,424	(129,563)	8,404,861
	68,637,131	-	68,637,131

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Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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36. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position - extract

	Comparative figures previously reported	Reclassificatio n	After reclassification
Other assets (refer to note 4 and note 34)	18,260,605	8,893,018	27,153,623
Road infrastructure (refer to note 4 and note 34)	103,403,104	(3,470,569)	99,932,535
Electrical infrastructure (refer to note 4 and note 34)	12,494,294	3,470,569	15,964,863
Community assets (refer to note 4 and note 34)	64,563,183	(8,893,018)	55,670,165
Total	198,721,186	-	198,721,186

Statement of financial performance - extract

	Comparative figures previously reported	Reclassificatio n	After reclassification
Employee cost - Basic salary	43,426,643	781,229	44,207,872
General expenses	45,835,570	(781,229)	45,054,341
Total	89,262,213	-	89,262,213

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Notes to the Annual Financial Statements

Figures in Rand

37. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Current liabilities

Trade and other payables from exchange transactions	26,541,566	18,206,546
Unspent conditional grants	4,941,760	1,742,146
Provision for long term service award	17,570	51,207
	31,500,896	19,999,899

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Consumer debtors comprise of a large number of ratepayers dispersed accross different sectors and geographical areas. Management evaluated credit risk relating to customers on an ongoing basis. Credit exposure is managed by application of the municipality's policies regarding credit control and debt collection. The municipality has made a provision for doubtful debts in accordance to its policies. The carrying amount of financial assets is the maximum exposure to credit risk in relation to these assets.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Trade and other receivables from exchange transactions	8,701,509	7,183,088
Trade and other receivables from non-exchange transactions	5,473,650	2,968,586
Cash and cash equivalents/bank balances	5,267,911	1,512,771

38. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 303,401,141 and that the municipality's total assets exceed its liabilities by R 303,401,141.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

39. Events after the reporting date

There were no events after the reporting date.

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Notes to the Annual Financial Statements

Figures in Rand

40. Unauthorised expenditure

Opening balance as previously reported	36,702,990	25,311,542
Opening balance	36,702,990	25,311,542
Current year movement-Actual expenditure exceeds budget	11,103,547	11,162,073
Uncashed Conditional Grants	-	229,375
Less: Amount written off - prior period	(36,702,990)	-
Closing balance	11,103,547	36,702,990

41. Fruitless and wasteful expenditure

Opening balance as previously reported	2,217,659	2,023,650
Opening balance	2,217,659	2,023,650
Fruitless and wasteful expenditure current year not condoned	78,355	70,293
Interest charged on eskom account - current year (not condoned)	45,847	77,240
Overpayments to suppliers	-	46,476
Less: Amount written off - prior period	(2,217,659)	-
Closing balance	124,202	2,217,659

42. Irregular expenditure

Opening balance	86,863,596	76,128,076
Add: Irregular Expenditure - current year	4,872,733	10,735,520
	-	-
Less: Amount written off - prior period	(76,003,248)	-
Closing balance	15,733,081	86,863,596

Irregular expenditure relates to procurement of goods and services without following proper supply chain management processes. Irregular expenditure has been submitted to council and the council referred it to the MPAC for investigation.

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1,000,657	500,000
Current year subscription / fee	500,000	500,000
Other invoices	13,062	6,657
Amount paid - previous years	(1,000,000)	-
	513,719	1,006,657

Audit fees

Opening balance	42,084	42,440
Current year subscription / fee	1,734,043	2,154,796
Amount paid - current year	(1,776,127)	(2,155,152)
	-	42,084

PAYE and UIF

Opening balance	-	1,130,614
Current year subscription / fee	7,331,114	7,683,645
Amount paid - current year	(7,331,114)	(8,814,259)
	-	-

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Notes to the Annual Financial Statements

Figures in Rand

43. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	(1,459)	466,180
Current year subscription / fee	6,666,184	9,103,909
Amount paid - current year	(6,662,982)	(9,571,548)
	1,743	(1,459)

VAT

VAT receivable	1,846,453	1,391,158
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Nkandla Municipality accounts for VAT on cash basis.

All VAT returns have been submitted by the due date throughout the year.

44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the who considered them and subsequently approved the deviation from the normal supply chain management regulations. The deviations for 2019 - amounted to R 3 152 189.47 (2018 - R 1 819 064).

45. Surplus / (Loss) on disposal of asset

Surplus / (Loss) on disposal of asset	355,242	(1,490,621)
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46. Electricity Distribution Losses

Electricity distribution loss in rand value	2,966,867	3,987,962
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The electricity losses in units for 2019 - 3 124 587 kWh (2018 - 1,788,283 kWh). This constituted a 26.80% (2018 - 16.3%) loss which is above the norm of 7%-10%

47. Change in estimate

Property, plant and equipment

During the review of property, plant and equipment and intangible assets, the remaining useful lives were reassessed. The effect of this change in accounting estimate in the current and future periods on depreciation is as follows:

2016	Depreciation previously reported	Revised depreciation	Change in accounting estimate	Impact on future periods
Furniture and Office Equipment	364,530	(319,969)	(44,561)	44,561